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Federal Reserve Board Releases Memo Regarding Approach To Bank Supervision

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Earlier this week, the Federal Reserve Board ("FRB") issued a **press release** on changes in supervisory approach consistent with Vice Chair of Supervision Michelle Bowman's priorities, which she articulated in, among other places, a speech we **covered** in June when she was just confirmed to the Vice Chair position. The press release appears to follow reporting from the **New York Times** the previous day reporting on the memo and its critics. The press release also included an October 29, 2025 **memo** that was sent to FRB supervisory staff laying out supervisory operating principles and "directional guidance on the changes the Vice Chair expects [staff] to undertake." The memo noted that the "changes represent a significant shift from past operating practices."

While the operating principles memo may reflect a shift from past operating practices at the FRB, it is consistent with efforts underway at the Federal Deposit Insurance Corporation ("FDIC") and Office of the Comptroller of the Currency ("OCC") that we reported on last **month** to focus supervision on material financial risks rather than "non-material procedural issues." The memo notes this focus on material financial risks in a number of the eleven overall bullets in the memo, but explicitly notes in the second overall bullet this approach and how it may manifest in the delivery of "Matters Requiring Attention" or "MRAs" or Matters Requiring Immediate Attention" or "MRIAs":

- Examiners and other supervisory staff should prioritize their attention on a firm's material financial risks.
    - They should not become distracted from this priority by devoting excessive attention to processes, procedures, and documentation that do not pose a material risk to a firm's safety and soundness.
    - Examiners and other supervisory staff can address shortcomings that do not rise to the level of MRAs or MRIAs by making nonbinding supervisory observations. We will be amending **SR 13-13** to reverse its directive to eliminate supervisory observations.
    - This will make supervision more effective by allowing examiners and other supervisory staff to prioritize their attention on a firm's material financial risks.

The memo also noted there would be a reduction in horizontal reviews of similarly situated large banking organizations.

Vice Chair Bowman noted in the press release that "[o]ur supervisory approach is not about narrowing our focus—it is about sharpening it, . . . By anchoring our work in material financial risks, we strengthen the banking system's foundation while upholding transparency, accountability, and fairness. This is not about what we are leaving behind—it is about building a more effective supervisory framework that truly promotes safety and soundness across our financial system, which is the Federal Reserve's core supervisory responsibility."

On the same day as the FRB press release, former Vice Chair of Supervision (but still FRB Governor) Michael Barr gave a speech entitled "**The Case for Strong, Effective Banking Supervision**." While Governor Barr did not specifically reference the supervisory principles memo, he did criticize the reductions in force announced at all three federal bank supervisors.

Much of bank supervision can be viewed as art rather than science, and calibrations of "how strict" bank supervision ought to be does often ebb and flow given changes in administrations. While banks will likely welcome the efficiencies the new principles may bring, they almost always would prefer certainty.